

## Ohio Education Association

### House Bill 1 – Flat Tax Proposal – OEA Opposed

**Status:** Currently before the House Ways and Means Committee

House Bill 1, sponsored by Representative Adam Mathews (R-Lebanon), proposes to make sweeping changes to Ohio's current personal income and property tax system. These changes would have a significant, negative impact on public school districts and other local government entities. OEA opposes House Bill 1.

The bill proposes to create a flat income tax rate of 2.75%. Ohioans who make under \$26,050 would continue to pay no income tax. The change from a graduated rate structure to a flat rate would predominately benefit Ohioans who make more than \$124,000. The table, produced by the Institute on Taxation and Economic Policy (ITEP), show the impact of House Bill 1 by income level.

Impact of HB 1							
ITEP estimates of the bill's impact							
	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Richest 1%
Income Range	< \$23,000	\$23,000 - \$47,000	\$47,000 - \$75,000	\$75,000 - \$124,000	\$124,000 - \$244,000	\$244,000 - \$617,000	> \$617,000
Average Income in Group	\$ 12,000	\$ 34,000	\$ 61,000	\$ 97,000	\$ 159,000	\$ 347,000	\$ 1,534,000
Tax Change as a % of Income	0%	0%	-.04%	-.16%	-.04%	-.057%	-.073%
Average Tax Change	\$0	-\$1	-\$24	-\$155	-\$628	-\$1,974	-\$11,166

The proposed income tax cut will reduce the state General Revenue Fund (GRF) tax revenues by \$2.5 billion in FY 24, by \$1.8 billion in FY 25, and by an increasing amount in FY 26 and beyond. This will hamstring Ohio's ability to provide state subsidy for full implementation of the Fair School Funding Plan and other important public services.

House Bill 1 also contains multiple changes to property taxes. It proposes to eliminate the \$1.3 billion in state payments to school districts and other local government entities that pay for 10% of residential property taxes, commonly referred to as the 10% rollback.

Additionally, the bill seeks to reduce the assessment percentage on residential and agricultural property from 35% to 31.5%. This change is to offset the automatic increase of property tax because of the elimination of changes to the rollback. In future years, the yearly assessment rates can't be higher than 31.5% and movement of the rate is tied to inflation.

According to the Ohio Legislative Services Commission (LSC) Fiscal Note, these property tax changes would result in:

- \$538 million annual decrease in local tax revenues for school districts and local governments (\$298 million reduction for school districts) that could grow in future years if the assessment rate is below 31.5%.
- \$929 million annual unvoted tax increase for residential and agricultural property taxpayers. This is a result of the HB 920 tax reduction factors working in the reverse to preserve property taxes at the previous level due to the change of the assessment percentage.

***OEA Position: OEA strongly opposes House Bill 1 as it would slash funding for public schools and other essential public services.***

- The proposed income tax changes, that benefit Ohio's wealthy, would result in \$4 billion less in state revenue over the next two years. House Bill 1 will restrict Ohio's ability to fully fund our public schools and provide essential public services.
- Over the biennium, the funding cuts in House Bill 1 (\$596 million) surpass the governor's school funding increases included in House Bill 33 (\$592 million).
- House Bill 1 will immediately increase the tax burden on local taxpayers. Additionally, it will force school districts and local governments to go back to frustrated local voters to make up the shortfalls.
- House Bill 1 will make it difficult for school districts to financially plan.
- While the bill expresses intent to hold local governments financially harmless in FY24 and FY 25, the language does not explicitly include school districts, contains no appropriation, and would lead to a fiscal cliff once the "hold harmless" expires.